**Table 2: Elements of pricing goods for export**

| Element | F.o.b. (Factory) | F.o.b. (Point of export) | F.o.b. (Vessel) | C.&f. (Named port) | C.i.f. (Named port) |
|---|---|---|---|---|---|
| Cost of producing wood products | $ | $ | $ | $ | $ |
| Packaging | $ | $ | $ | $ | $ |
| Processing/ handling | $ | $ | $ | $ | $ |
| Inland transportation | | $ | $ | $ | $ |
| Unloading fees at port | | $ | $ | $ | $ |
| Forwarder's charges | | | $ | $ | $ |
| Consular fees | | | $ | $ | $ |
| Ocean freight | | | $ | $ | $ |
| Marine insurance | | | | | $ |

Terms used: F.o.b. -free on board; C.&f. -cost and freight; and C.i.f. -cost, insurance, and freight.

Sources: Inbound Traffic Guide, 1978.

# Financing Exports

**Payment options for export shipments**

Listed below are nine options for receiving payment for exported goods. The best method to use depends on a number of factors including the credit rating of the foreign customer, any foreign exchange restrictions imposed by the importing country, and competitive goods and credit facilities available to overseas buyers. Your bank or financial institution should be knowledgeable about most of these payment options.

**Cash in advance** -- This is the most desirable and safest method of receiving payment since the exporter has immediate use of the money and is not concerned with repayment schedules. The percentage of trade conducted under this method is low.

**Open account** -- This is the riskiest method because it is merely an arrangement between the buyer and seller for payment at a later date with no legal document or recourse available to the exporter. Also, the exporter's capital is usually tied up until the time of payment. This method is used by exporters who deal with longstanding customers of unquestionable integrity.

**Consignment sales --** Under this method the goods are available to the foreign firm on a deferred payment basis. The exporter usually secures political and commercial risk insurance for the goods until payment is received.

**Sight draft** -- Money is payable at sight of the completed documents. This method is used when sellers wish to retain control of the shipment either for credit reasons or for the purpose of title retention. A bank acts as an intermediary and is presented with the original bill of lading endorsed by the shipper and other documents (such as packing lists, consular invoices, and insurance certificates) that are not released to the importer until payment of the draft. The advantage of this method is that the exporter retains title to the goods until payment is made. The disadvantage is that the importer can refuse to pay the draft, and the exporter is responsible for shipping the goods back to the United States at the seller's expense or reselling to a third party in the foreign country.

**Time or acceptance draft** -- This method is similar to a sight draft except that the importer may defer payments of the draft for 30, 60, 90, or 180 days. Although the exporter does not have any legal recourse if the importer does not pay, a foreign or U.S. bank does act as an intermediary for collection purposes.

**Date draft** -- The date draft requires payment by a specified date regardless of the date on which the goods and the draft are accepted by the importer. Date drafts prevent the importer from extending the period of credit as a result of postponing receipt of the goods.

**Delivery orders** -- Some countries do not recognize or permit sight draft shipments, including negotiable bills of lading. Shippers may consign the merchandise to a third party, such as an import broker, in the foreign country on a straight bill of lading. The shipper must write a letter called a "delivery order" to the third party authorizing release of the shipment to the bearer of the original delivery order. The required documents are sent to the importer's bank with instructions to the broker to release the goods to the importer only after the draft is accepted. The importer's bank is usually the third party.

**Letters of Credit** -- The "letter of credit" is a document issued by a bank at the importer's request in favor of the exporter obligating the importer to pay for the shipment when the bank receives the required shipping documents.  There are two types of letters of credit.  The first is an irrevocable letter of credit confirmed by a U.S. bank.  This guarantees the seller that payment terms and conditions of the letter credit have been met.  The second type is an irrevocable letter of credit confirmed by the foreign bank but not the U.S. bank; payment is guaranteed by the foreign bank.  The first type is preferred because the U.S. bank accepts the responsibility to pay and the exporter receives payment as soon as the documents are presented to the bank.

**Barter and Countertrade** -- Countertrade is an arrangement for payment or financing by a means other than a cash-for-goods basis. Barter is the easiest form of countertrade to understand: goods for goods.  Bartering benefits Third World countries by offsetting the influence of other market forces that may work against their competitive position, such as high interest rates and a high relative strength of the U.S. dollar compared to other foreign currencies. Countertrade may be considered as an alternative payment or financing scheme and is promoted by centrally planned economies. The method is not generally used by U.S. companies because it increases costs, requires additional management time and planning, and is characterized by detailed contract requirements. In the ideal countertrade arrangement, a company receives goods that it can use internally or sell to established customers.

Selling or distributing countertraded goods that are not traditionally handled by the firm will require new marketing practices and channels. Additional costs should be anticipated when handling new products obtained in countertrading. The company may consider employing a countertrade specialist or trading company to sell the goods.

**Letters of credit and invoices**

Information required in the letter of credit (L/C) must match with other shipping documents and invoices. Some of the most common errors and oversights associated with shipping documentation are:

- ❏ Merchandise description not identical to that in the letter of credit (L/C).
- ❏ Buyer's name not identical to that shown in the L/C.
- ❏ Total amount not identical to that shown in the draft.
- ❏ Excess drawing or excess shipment.
- ❏ Net value in excess of L/C amount.
- ❏ Prices not as specified in the L/C.
- ❏ Incorrect extension of prices.

❑ Omission of the price basis, such as f.o.b., f.a.s., or c.i.f., specified in the L/C.

❑ Inclusion of charges not specifically permitted under the terms of the L/C, such as commission, storage, or messenger costs.

❑ Not marking "PAID" when specified in the L/C.

❑ Not certified, notarized, or visaed if required by the L/C.

❑ Absence of statements required by the L/C.

❑ Type of packing, weight, or marks omitted from invoice.

❑ Marks and numbers not consistent with other documents.

❑ Weights not consistent with those shown in other documents.

❑ Gross weight shown for net when not expressly permitted by L/C.

❑ Order and license numbers required by L/C omitted.

❑ Goods termed "used" or "second hand" when not allowed by L/C.

❑ Absence of specified signature.

❑ Insufficient number of copies.

**Options for financing export operations**

**Foreign credit insurance Association (FCIA)** --The Foreign Credit Insurance Association (FCIA) is a private entity serving the international marketplace. The Association writes a wide range of credit insurance and political risk coverages for experienced exporters. Great American Insurance Company, the Association's principal, is a large, privately held, multiline insurer founded in 1872.

FCIA offers a wide variety of policies for short-term sales (up to 180 days, exceptionally 360 days) and political risk insurance (policy periods up to 2 years). Both multibuyer and single buyer policies are available and there are no restrictions on content or sourcing of insured products. Multibuyer coverages include flexible premium options and short claim waiting periods.

The widely used Multi-Buyer Export policy is generally written to cover shipments during a one-year period and insures a reasonable spread on an exporter's sales. It enables the exporter to make quick credit decisions, so as to provide faster service to overseas buyers. The exporter can obtain financing and offer competitive credit terms to attract and retain buyers around the globe, even in high risk markets. Coverage is generally 95 percent for political and commercial risk and the policy has a deductible similar to other forms of insurance.

The policy is subject to limits of liability. The aggregate limit represents the insurer's maximum liability under the policy. Exporters make their own credit decisions for shipments up to the amount of a discretionary credit limit (DCL). For larger amounts, a special buyer credit limit (SBCL) is available upon application to FCIA.

For additional information, contact FCIA at 40 Rector Street, 11th Floor, New York, NY 10006. Tel. (212) 306-5000, or your insurance broker.

**Export-Import Bank of the United States** -- The Export-Import Bank (Ex-Im Bank) of the United States is the U.S. Government agency that facilitates the export financing of U.S. goods and services. Ex-Im Bank helps U.S. exporters compete against foreign governments subsidized financing in overseas markets. Ex-Im Bank offers four major export finance support programs: loans, guarantees, working capital guarantees, and insurance.

**Lending Programs** -- Ex-Im Bank's loans provide competitive, fixed interest rate financing for U.S. export sales of capital equipment and services. Ex-Im Bank extends loans to foreign buyers of U.S. exports at low, fixed interest rates according to the Organization for Economic Cooperation and Development arrangement.

**Guarantee Program** -- Guarantees provide repayment protection for private sector loans to creditworthy foreign buyers of U.S. goods and services. The guarantees provide coverage for both political and commercial risks

**Working Capital Guarantee Program** -- Ex-Im Bank also offers guarantees to lenders to support pre-export financial needs. The Working Capital Guarantee Program can help small- and medium-sized exporters obtain the financing they need to produce and market goods for sale abroad.

**Insurance** -- The Ex-Im Bank insurance program offers insurance policies to protect U.S. exporters and banks against the political and commercial risk of nonpayment by foreign debtors. Special policies exist for small and environmental businesses.

Inquiries should be directed to Ex-Im Bank Business Development Group, 811 Vermont Avenue, NW., Washington, DC 20571. Tel. (800) 565-EXIM.

**Overseas Private Investment Corporation (OPIC)** -- OPIC is a U.S. Government corporation that promotes U.S. investment in less developed countries. OPIC's finance program is oriented

towards medium- to long-term investments that involve significant developmental benefits. The program provides insurance coverage for U.S. investments against expropriation, inconvertibility of local currency, or losses resulting from war, revolution, or civil disorders. OPIC does not handle export financing directly but may assist in financing complementary projects, such as a distribution yard for U.S. wood products. Insurance on letters of credit may also be obtained in the absence of FCIA or other commercial insurance. The insurance covers 90 percent of the investment plus attributable earnings. For additional information, contact OPIC, 1100 New York Ave., NW, Twelfth Floor, Washington, DC 20527. Tel. (202) 336-8799.

The U.S. Small Business Administration (SBA) was created in 1953 as an independent agency of the federal government to aid, counsel, assist, and protect the interests of small business concerns, to preserve free competitive enterprise, and to maintain and strengthen the overall economy of our nation. Small business is critical to our economy, to building America's future, and to helping the United States compete in today's global marketplace.

**Small Business Administration (SBA)** -- SBA's Office of International Trade (OIT) works in cooperation with other federal agencies and public- and private-sector groups to encourage small business exports and to assist small businesses seeking to export. OIT's outreach efforts include sponsoring or supporting export training conferences and developing "how to" and market-specific publications for exporters. OIT directs and coordinates SBA's ongoing export initiatives, such as the Export Legal Assistance Network (ELAN) and SBA's Automated Trade Locator Assistance

System (SBAtlas). The office actively markets SBA's loan guarantee programs to exporters.

Export Working Capital Program (EWCP) -- To help small businesses export, SBA has developed the new Export Working Capital Program (EWCP). SBA's EWCP, which replaces the former Export Revolving Line of Credit, provides short-term, transaction-specific financing. Exporters may use this program for pre-export financing of labor and materials, financing receivables generated from these sales, and/or standby letters of credit used as performance bonds or payment guarantees to foreign buyers. The EWCP provides repayment guarantees of 75 percent or $750,000 (whichever is less) to commercial lenders and offers exporters preliminary commitments (PCs) that encourage lenders to provide credit. To be eligible, the small business concern must have been in operation, though not necessarily exporting, for at least 12 months. The EWCP offers a simplified application form. Interest rates and fees are negotiable between the lender and the small business exporter.

**International Trade Loan Program (ITL)** -- This program helps small businesses that are engaged or preparing to engage in international trade, as well as small businesses adversely affected by competition from imports.  SBA can guarantee up to $1.25 million, less the amount of SBA's guarantee portion of other loans outstanding, to the borrower under SBA's regular lending program. Loans are made by lending institutions with the SBA guaranteeing a portion of the loan.  The applicant must establish either that the loan proceeds will significantly expand existing export markets or develop new export markets, or that the small business is adversely affected by import competition.  Proceeds may be used for working capital and/or facilities or equipment.  Maturities of loans for facilities or equipment may extend to the 25-year maximum.

**7(a) Regular Business Loan Program** -- The SBA 7(a) Loan Guaranty program can fund the varied long-term needs of small businesses where necessary financing is unavailable on reasonable terms through normal lending channels.  The program promotes small business formation and growth.  SBA guarantees long-term loans to qualified firms.  SBA's basic guaranty program makes loans available for many business purposes, such as real estate, expansion, equipment purchases, working capital, or inventory. Private lenders, usually banks, make loans which are guaranteed up to 75 percent of the loan by SBA. The borrower makes loan payments to the lender. SBA can guarantee up to $750,000.

**Small Business Investment Companies (SBICs)** -- SBICs exist to provide equity capital, long-term loans, and management assistance to qualifying small businesses. They are privately owned and operated companies that use their own capital and funds borrowed from the SBA to provide financing to small businesses in the form of equity securities and long-term loans. SBICs invest in a broad range of industries. SBICs may invest in export trading companies provided all other eligibility requirements are met. For further information regarding the SBIC program, contact the Investment Division, U.S. Small Business Administration, 409 Third St., Washington, D.C. 20416; Tel. (800) 827-5722.

**U.S. Export Assistance Centers (USEACs)** -- USEACs offer a full range of federal export programs and services under one roof. Clients receive assistance by professionals from the SBA, Dept. of Commerce, Ex-Im Bank, and other public and private organizations. It's a partnership that makes it easier for you to get the help you need to compete and succeed in the global marketplace. Each USEAC, located in 15 cities nationwide, is ready to meet your business needs with: export marketing and trade finance assistance at convenient one-stop locations, customized counseling that best suits your company's experience and commitment to exporting, and customer service that uses the latest technology to bring export assistance to your doorstep.

For more information, SBA has offices located throughout the U.S. and its territories. For the one nearest you, look under "U.S. Government" in your telephone directory. You may also call the Small Business Answer Desk at (800) 8-ASK-SBA. To fax, dial (202) 205-7064. For the hearing impaired, the TDD number is (202) 205-7533. To access SBA OnLine (electronic bulletin board) dial (800) 697-4636 (limited access) or (900) 463-4636 (full access); WWW Home Page: http://www.sbaonline.sba.gov; SBA's gopher: gopher://www.sbaonline.sba.gov; File transfer protocol: ftp://www.sbaonline.sba.gov; Telnet: telnet sbaonline.sba.gov.

In addition, there are 56 Small Business Development Centers (SBDCs) in 900 service locations and over 400 Service Corps of Retired Executives (SCORE) offices to help you start and/or strengthen your own business.

**U.S. Trade and Development Agency (TDA)** -- The U.S. Trade and Development Agency (TDA), an independent federal agency provides funding for feasibility studies for public and private sector projects in developing and middle-income nations which lead to the export of U.S. products and services. Helping U.S. businesses win contracts to implement major overseas infrastructure projects is one of TDA's main objectives. TDA funds studies on a variety of projects including large-scale energy generation and conservation, infrastructure, mineral development, agribusiness, and basic industrial facilities, all of which could make use of U.S. products. For additional information on country eligibility, developmental priorities, and U.S. goods procurement requirements, contact the U.S. Trade and Development Agency, Room 309, SA-16, Washington, DC 20523-1602. Tel. (703) 875-4357.